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On the Accounts of the Bank of England under the Operation of the Act 7 & 8 Vict., c. 32. By J. T. DANSON, Esq., F.S.S., of the Middle Temple.

[Read before the Statistical Society, 18th January, 1847.]

It is the purpose of the present paper to place upon record, in a collected form, and in as clear and simple a manner as the nature of the subject admits of, the principal facts necessary to a just appreciation of the influence of the Act 7 and 8 Vict., c. 32, upon the business of the Bank of England, during the two years extending from the beginning of September, 1844, (when the Act came into operation,) to the beginning of September, 1846.

The subject obviously derives its interest mainly from two considerations; 1st, the very great influence the operations of the Bank of England have upon the commercial transactions of this country, and incidentally upon those of other countries; and, 2ndly, that the legislative measure referred to rests upon a theory of the currency which, whether it be true or false, is very generally admitted to stand upon debateable ground.

Were there a general concurrence of opinion among the highest authorities upon the subject of the currency, as to the truth of the propositions upon which the Act is founded, and consequently as to the propriety of its enactments, it would still, it is conceived, be desirable to ascertain, by an examination of its actual effect upon the business of the Bank, how far the admitted theory was confirmed in practice. But as the highest authorities were not only divided in opinion when the Act was under discussion, but continue to be so, there is an additional and more urgent reason for marking with care every indication the actual operation of the Act may furnish of the truth or fallacy of the particular theory it embodies, and of the validity of which its operation is avowedly regarded by both parties as a test.

It does not, of course, fall within the scope of the present paper, as embracing the results of an investigation purely statistical, to consider the points in dispute between the supporters and the opponents of the Act of 1844, further than as the views of either party may be illustrated, or their correctness tested, by the facts before us. It may, however, be desirable, before entering upon the facts themselves, to state shortly the leading features of the view of the subject generally understood to be taken by each party. They are gathered on the one hand from the writings of Mr. Jones Loyd and Colonel Torrens, and the speeches of Sir Robert Peel in favour of the measure, and, on the other, from the writings of Mr. Tooke and Mr. Fullarton against it, and are comprised in the following propositions. It is held by the former—

1. That the amount of the circulating medium in the hands of the public may be greater or less than is properly required for the transaction of the current business of the community; and that when greater, it tends, by the excess, to make the use of the circulating medium too cheap.

2. That as the value of all other commodities is measured by that of the circulating medium, prices, or the nominal expressions of their value, are at such periods enhanced.

3. That such enhancement, by reducing exports, and stimulating

imports, turns the foreign exchanges against us, and leads to a drain of bullion.

4. That if, on the other hand, the amount of the circulating medium be reduced *below* that properly required for the time, a contrary effect will ensue, producing favourable exchanges, and an influx of bullion.

5. That one principal cause, and that which has heretofore been the most common in this country, of an undue expansion of the circulating medium, is the putting or keeping in circulation, by their issuers, of too large an amount of bank notes payable on demand.

6. That the issuers of such notes can regulate at will the amount of them in circulation ; and

7. That if the bank notes in circulation be kept in strict proportion to the bullion in the hands of their issuers, the amount of the circulating medium will be prevented from becoming greater than it should be, and the mischief held to arise from its becoming so will be averted.

The counter propositions of those who hold that the Act of 1844 is not founded upon correct views of the currency may, for the present purpose, be sufficiently stated as follows :—

1. That no greater amount of the circulating medium, whether in coin or notes, is ever in actual use, or therefore in circulation, than is required by the current transactions of the community ; for that so much of it as there is no present use for goes either into hoards or into bankers' deposits. That if hoarded, it ceases to have any effect as circulating medium ; and that if deposited with bankers, it can only pass again into use *at interest*, which interest will only be paid by those who have a profitable use for it.

2. That while a large portion of the circulating medium is dependent solely upon the credit of its issuers, its extension can, in fact, only be limited by the state of that credit on the one hand, and by the aggregate demand of those who are willing to pay for its use on the other.

3. That while there is a large fund of deposits in every part of the country payable on demand, an issuing banker cannot affect the aggregate amount of the circulating medium by issuing or withdrawing his notes.

4. That the amount of bank notes in circulation, representing only one portion of the addition made by the operations of bankers to the amount of the circulating medium, through the agency of their credit with the public, a restriction upon the amount of the addition so made must be ineffectual, unless it be accompanied by a like restriction on such of their other operations as have the same or a similar effect ; and that, therefore, the omission of any regard to deposits, and their effect in supplying, readily and extensively, the place of a portion of the circulating medium of this country, must render the restriction now placed upon the bank notes in circulation ineffectual to limit the amount of the circulating medium, whenever it shall become practically inconvenient either to bankers or to the public.

5. That the true measure of the voluntary addition made by a banker to the amount of the circulating medium is found, *not* in the amount of his notes in circulation, but in the terms upon which he makes advances, or in other words, upon the price he charges for the

use of so much of the circulating medium as he happens to command, either by the actual possession of money, or by his credit; and

6. That any attempt to control the issuing banker by law in the management of this branch of his business would be, in fact, an attempt to fix the price of the use of money, or of credit held sufficient to represent money, which, like all other prices, is, and must continue to be, governed by influences wholly beyond the control of the Legislature.

The Act 7 and 8 Vict. c. 32 (as well as the other measures subsequently applied by Parliament to the banking system of the United Kingdom) was based upon a series of resolutions introduced into the House of Commons by Sir Robert Peel, and there discussed early in the Session of 1844. Three of these resolutions (the 2nd, 3rd, and 4th,) stated, in few words, the main purposes of the Act. They were as follows:—

“ 2. That it is expedient to provide by law that the Bank of England should henceforth be divided into two separate departments, one exclusively confined to the issue and circulation of notes, the other to the conduct of banking business.

“ 3. That it is expedient to limit the amount of securities upon which it shall henceforth be lawful for the Bank of England to issue notes payable to bearer on demand; and that such amount shall only be increased under certain conditions, to be prescribed by law.

“ 4. That it is expedient to provide by law that a weekly publication should be made by the Bank of England of the state both of the Circulation and of the Banking Departments.”

The manner in which these resolutions were subsequently embodied in the Act will be best gathered from a short statement of such of its provisions as are material to the present inquiry.

The first section enacts that, after 31st August, 1844, the issue of promissory notes shall be kept wholly distinct from the general banking business of the Company, and be carried on separately as “The Issue Department of the Bank of England.”

By section 2 the Governor and Company are directed, after the same date, to set apart securities to the value of £14,000,000, and appropriate them to the Issue Department. Of this sum the debt of the Government to the Company is to be taken as part. And, in addition to the securities, there is to be placed in the Issue Department so much of the gold and silver coin in the possession of the Bank as shall not be required in the Banking Department. Thereupon an equal amount in notes (including those in circulation) shall be issued from the Issue Department to the Banking Department; and the whole amount shall be deemed to be issued on the credit of such securities, coin, and bullion.

And by section 6 an account, in a prescribed form, is to be rendered by the Bank of England, weekly, to the Commissioners of Stamps and Taxes, to be by them published in the next succeeding *London Gazette*.

The following tables exhibit, in the order of date, every item of the accounts of the Bank as rendered and published weekly under this Act, from the time it came into operation (1st September, 1844) down to 5th of September, 1846.

It may be necessary to observe, that before the Act of 1844 came into operation the accounts of the Bank were also published, but less frequently, and in another and shorter form. And as the accounts in the form directed by the new Act are, partly from their increased detail, and partly from their appearing in two separate parts, somewhat less generally intelligible than in the old form, and as uniformity is also requisite to any comparison of the state of the accounts before and after the Act, and such comparisons may be found necessary to a right apprehension of the fluctuations now to be observed, the accounts just given are repeated in the old form. And for the sake of additional clearness in this more simple view of the accounts, five figures on the left hand of each sum are omitted throughout, leaving the millions to stand as whole numbers, and the next figure on the right as a decimal fraction.

It will be noticed that the sums given in the second series of tables are none of them to be found in the accounts as stated in the new form. It is therefore proper to state how they are obtained.

The "*circulation*" is obtained by deducting from the "notes issued" from the Issue Department the "notes" remaining in the Banking Department, and adding to the remainder the "seven days' bills." Properly speaking, these bills should not be included in a statement of the circulation made use of in testing the operation of the Act of 1844; for though they commonly circulate as bank notes for some time after the expiration of the period for which they are drawn, and, from the first, serve nearly the same purposes as bank notes, they do not come within the definition of what constitutes the "*circulation*" advanced by the supporters of the Act. They were, however, always included by the Bank in the returns of her note circulation made before the Act, and must therefore be so given in any continuation of the old form of her accounts. And as their amount happens to be tolerably uniform during the period under review, seldom exceeding or falling much short of one million, the addition does not materially affect the apparent variations of the circulation in reference to the remaining items of the account; and the more correct amount may always be obtained, very nearly, by a simple deduction of that sum.

The "*deposits*" are obtained by adding together the amounts now given, separately, as "public deposits" and "private deposits," in the Banking Department.

The "*securities*" are obtained by adding together the "Government debt" and "other securities" in the Issue Department, and the "public" and "other securities" in the Banking Department, and deducting from the sum the amount returned as "capital" in the Banking Department.

The "*bullion*" is obtained by adding the "gold" and "silver" bullion in the Issue Department to the "coin" in the Banking Department.

The "*reserve*" is an item furnished to aid the purpose of the present inquiry. It is obtained by adding together the "notes" and "coin" in the Banking Department. It exhibits the amount of the reserve held at any given time against the sum of the deposits and seven days' bills, and thus marks the proportion of available assets to liabilities payable on demand, fixed by the Bank in the exercise of the discretion left to her in the Banking Department.

ISSUE DEPARTMENT.

Week ending	Notes.	Government Debt.	Other Securities.	Bullion.	
				Gold.	Silver.
1844.	£	£	£	£	£
Sept. 7	28,351,295	11,015,100	2,984,900	12,657,208	1,694,087
„ 14	28,500,880	11,015,100	2,984,900	12,806,794	1,694,086
„ 21	28,582,705	11,015,100	2,984,900	12,888,619	1,694,086
„ 28	28,362,830	11,015,100	2,984,900	12,668,744	1,694,086
Oct. 5	28,082,905	11,015,100	2,984,900	12,388,819	1,694,086
„ 12	27,838,085	11,015,100	2,984,900	12,149,367	1,688,718
„ 19	27,731,910	11,015,100	2,984,900	12,043,192	1,688,718
„ 26	27,545,730	11,015,100	2,984,900	11,897,842	1,647,888
Nov. 2	27,498,580	11,015,100	2,984,900	11,875,969	1,622,611
„ 9	27,400,995	11,015,100	2,984,900	11,790,467	1,610,528
„ 16	27,507,795	11,015,100	2,984,900	11,914,184	1,593,611
„ 23	27,528,875	11,015,100	2,984,900	11,935,264	1,583,611
„ 30	27,786,190	11,015,100	2,984,900	12,192,579	1,593,611
Dec. 7	27,817,505	11,015,100	2,984,900	12,223,894	1,593,611
„ 14	28,003,705	11,015,100	2,984,900	12,410,094	1,593,611
„ 21	28,151,730	11,015,100	2,984,900	12,558,119	1,593,611
„ 28	28,200,165	11,015,100	2,984,900	12,606,554	1,593,611
1845.					
Jan. 4	28,087,055	11,015,100	2,984,900	12,493,444	1,593,611
„ 11	28,163,130	11,015,100	2,984,900	12,543,092	1,620,038
„ 18	28,133,080	11,015,100	2,984,900	12,480,235	1,652,845
„ 25	28,128,310	11,015,100	2,984,900	12,463,197	1,665,113
Feb. 1	28,232,485	11,015,100	2,984,900	12,548,405	1,684,080
„ 8	28,447,835	11,015,100	2,984,900	12,552,401	1,895,434
„ 15	28,537,255	11,015,100	2,984,900	12,638,987	1,898,268
„ 22	28,679,520	11,015,100	2,984,900	12,755,367	1,924,153
March 1	28,952,105	11,015,100	2,984,900	12,943,918	2,008,187
„ 8	29,040,075	11,015,100	2,984,900	13,008,880	2,031,195
„ 15	29,148,060	11,015,100	2,984,900	13,102,753	2,045,307
„ 22	29,213,555	11,015,100	2,984,900	13,177,831	2,035,724
„ 29	29,471,410	11,015,100	2,984,900	13,380,953	2,090,457
April 5	29,352,145	11,015,100	2,984,900	13,260,543	2,091,602
„ 12	29,216,950	11,015,100	2,984,900	13,143,380	2,073,570
„ 19	29,184,220	11,015,100	2,984,900	13,110,947	2,073,273
„ 26	29,253,945	11,015,100	2,984,900	13,180,672	2,073,273
May 3	29,167,095	11,015,100	2,984,900	13,088,142	2,078,953
„ 10	29,222,935	11,015,100	2,984,900	13,124,113	2,098,822
„ 17	29,340,425	11,015,100	2,984,900	13,237,395	2,103,030
„ 24	29,412,545	11,015,100	2,984,900	13,309,515	2,103,030
„ 31	29,635,735	11,015,100	2,984,900	13,532,705	2,103,030
June 7	29,732,600	11,015,100	2,984,900	13,605,716	2,126,884
„ 14	29,917,115	11,015,100	2,984,900	13,785,460	2,131,655
„ 21	30,051,610	11,015,100	2,984,900	13,911,607	2,140,003
„ 28	30,047,470	11,015,100	2,984,900	13,907,467	2,140,003
July 5	29,891,935	11,015,100	2,984,900	13,751,932	2,140,003
„ 12	29,682,660	11,015,100	2,984,900	13,542,657	2,140,003
„ 19	29,393,700	11,015,100	2,984,900	13,394,306	1,999,394
„ 26	29,243,520	11,015,100	2,984,900	13,244,126	1,999,394
Aug. 2	29,196,760	11,015,100	2,984,900	13,206,991	1,989,769
„ 9	29,141,605	11,015,100	2,984,900	13,151,836	1,989,769
„ 16	29,075,905	11,015,100	2,984,900	13,086,136	1,989,769
„ 23	29,022,310	11,015,100	2,984,900	13,032,541	1,989,769
„ 30	29,009,005	11,015,100	2,984,900	13,019,004	1,990,001

BANKING DEPARTMENT.

Week ending	Capital.	Rest.	Deposits.		Seven Days' and other Bills.	Securities.		Notes.	Coin.
			Public.	Private.		Public.	Other.		
1844.	£	£	£	£	£	£	£	£	£
Sept. 7	14,553,000	3,564,729	3,630,809	8,644,348	1,030,354	14,554,834	7,835,616	8,175,025	857,765
" 14	14,553,000	3,565,796	4,417,067	8,475,101	1,007,670	14,554,834	8,146,689	8,620,220	696,891
" 21	14,553,000	3,567,007	5,293,615	8,511,771	972,959	14,554,834	8,802,714	8,964,545	576,259
" 28	14,553,000	3,568,618	6,010,235	8,286,772	1,052,280	14,554,834	9,795,840	8,460,705	659,426
Oct. 5	14,553,000	3,552,704	6,202,322	8,225,082	1,081,258	14,554,834	10,510,120	7,930,010	619,402
" 12	14,553,000	3,059,645	8,147,290	8,230,673	1,107,985	16,352,834	10,528,785	7,610,025	606,919
" 19	14,553,000	3,102,033	3,965,196	8,506,798	1,074,673	15,676,037	8,418,826	6,648,665	458,172
" 26	14,553,000	3,105,387	3,556,646	8,291,481	1,065,712	15,408,775	8,387,508	6,224,845	551,098
Nov. 2	14,553,000	3,131,881	3,471,119	8,757,379	1,051,941	15,070,775	8,675,659	6,678,715	540,171
" 9	14,553,000	3,133,564	3,653,893	8,340,444	1,019,350	14,409,775	8,731,567	6,844,275	714,631
" 16	14,553,000	3,137,195	3,879,458	8,029,934	989,320	13,539,775	9,398,630	6,927,045	723,457
" 23	14,553,000	3,139,027	4,812,191	7,864,144	965,990	13,539,775	9,547,462	7,410,400	836,715
" 30	14,553,000	3,140,040	5,226,633	8,345,610	949,133	13,539,775	9,958,687	7,943,850	772,146
Dec. 7	14,553,000	3,110,069	5,555,372	8,442,809	966,455	13,540,619	10,193,713	8,286,105	827,468
" 14	14,553,000	3,105,880	6,355,631	3,381,188	994,174	13,540,619	10,293,154	8,745,540	840,589
" 21	14,553,000	3,110,613	7,075,268	8,348,738	967,934	13,540,619	10,763,777	8,959,083	791,417
" 28	14,553,000	3,113,267	7,411,605	8,265,079	984,540	13,540,619	11,031,821	9,076,800	678,251
1845.									
Jan. 4	14,553,000	3,127,278	7,366,643	8,037,320	1,015,166	13,539,720	11,426,996	8,418,125	714,566
" 11	14,553,000	3,194,623	4,128,966	8,877,905	1,019,528	14,386,839	9,001,544	7,772,930	612,709
" 18	14,553,000	3,208,159	3,069,572	8,803,570	1,079,821	13,843,692	8,627,598	7,588,083	654,747
" 25	14,553,000	3,209,696	2,787,253	8,714,052	1,058,727	13,651,692	8,561,399	7,418,075	691,562
Feb. 1	14,553,000	3,298,944	2,852,124	8,713,690	1,085,065	13,541,692	8,652,751	7,642,235	666,145
" 8	14,553,000	3,302,806	3,715,171	9,732,193	1,068,046	13,476,160	10,065,958	8,128,350	700,748
" 15	14,553,000	3,302,136	4,630,247	9,944,408	1,031,922	13,474,379	10,821,457	8,395,065	770,812
" 22	14,553,000	3,252,281	5,237,999	9,941,566	985,035	13,522,379	10,784,494	8,889,215	773,783
March 1	14,553,000	3,575,172	5,476,984	10,323,799	983,328	13,474,379	11,707,400	8,952,545	777,959
" 8	14,553,000	3,577,267	5,579,753	10,379,610	982,386	13,474,379	11,720,451	9,340,816	836,363
" 15	14,553,000	3,579,429	6,451,283	9,994,572	980,378	13,474,379	11,836,377	9,451,385	796,521
" 22	14,553,000	3,581,881	6,590,121	10,152,125	992,192	13,471,379	12,555,101	9,673,205	786,869
" 29	14,553,000	3,581,955	7,321,855	10,713,052	1,023,577	13,389,379	13,126,105	9,747,280	732,810
April 5	14,553,000	3,586,219	6,924,106	10,445,950	1,063,189	13,474,379	13,123,675	9,252,350	722,057
" 12	14,553,000	3,147,578	4,355,166	11,753,022	1,085,969	15,147,495	11,069,829	8,001,434	675,977
" 19	14,553,000	3,151,333	3,218,350	11,531,267	1,122,066	14,471,966	10,654,085	7,791,345	658,620
" 26	14,553,000	3,176,289	2,643,448	10,781,637	1,181,547	13,921,966	9,680,272	8,101,770	631,913
May 3	14,553,000	3,183,817	2,712,041	10,355,640	1,139,238	13,616,966	9,857,686	7,827,925	641,159
" 10	14,553,000	3,183,822	3,391,477	10,065,486	1,106,626	13,416,966	10,104,644	8,140,050	638,751
" 17	14,553,000	3,188,579	4,357,386	10,276,032	1,060,598	13,385,797	10,656,808	8,734,045	658,945
" 24	14,553,000	3,191,461	5,051,007	10,087,531	1,021,487	13,384,898	10,644,537	9,014,845	860,206
" 31	14,553,000	3,181,245	5,352,114	10,865,704	1,030,555	13,464,898	11,555,992	9,182,485	776,243
June 7	14,553,000	3,136,091	5,745,482	10,564,624	1,018,497	13,384,898	11,470,806	9,382,505	779,486
" 14	14,553,000	3,136,239	6,261,465	10,315,111	976,405	13,384,898	11,305,902	9,854,615	696,805
" 21	14,553,000	3,140,557	6,951,773	10,147,586	1,001,282	13,384,898	11,984,420	9,837,175	587,705
" 28	14,553,000	3,143,841	7,398,420	10,154,148	1,026,853	13,384,898	12,619,663	9,717,270	554,431
July 5	14,553,000	3,164,433	7,330,309	10,041,440	1,045,502	13,384,206	12,944,496	9,279,785	626,197
" 12	14,553,000	3,218,008	3,456,089	11,356,519	1,081,545	13,890,344	11,282,221	8,068,970	513,626
" 19	14,553,000	3,234,268	2,834,528	10,934,390	1,091,953	13,456,776	10,815,121	7,890,610	485,632
" 26	14,553,000	3,321,972	2,933,908	10,745,613	1,085,211	13,539,344	10,607,877	7,942,485	549,998
Aug. 2	14,553,000	3,338,246	3,215,363	10,960,214	1,072,260	13,321,844	11,463,603	7,849,785	503,851
" 9	14,553,000	3,340,750	4,034,767	10,187,780	1,050,220	13,321,844	11,634,159	7,682,465	528,049
" 16	14,553,000	3,348,596	4,960,963	8,973,401	1,374,346	13,441,844	11,679,359	7,494,205	603,898
" 23	14,553,000	3,349,282	5,393,936	8,408,887	1,383,666	13,321,844	11,353,577	7,832,955	580,295
" 30	14,553,000	3,588,888	5,830,311	8,571,253	1,069,606	13,347,576	11,712,811	7,959,390	583,287

ISSUE DEPARTMENT.

Week ending	Notes.	Government Debt.	Other Securities.	Bullion.	
				Gold.	Silver.
1845.	£	£	£	£	£
Sept. 6	28,953,300	11,015,100	2,984,900	12,982,591	1,970,709
„ 13	28,790,195	11,015,100	2,984,900	12,819,486	1,970,709
„ 20	28,798,230	11,015,100	2,984,900	12,863,507	1,934,723
„ 27	28,557,990	11,015,100	2,984,900	12,717,050	1,840,940
Oct. 4	28,355,670	11,015,100	2,984,900	12,514,730	1,840,940
„ 11	28,068,820	11,015,100	2,984,900	12,253,289	1,815,531
„ 18	27,778,955	11,015,100	2,984,900	12,018,447	1,760,508
„ 25	27,415,690	11,015,100	2,984,900	11,758,159	1,657,531
Nov. 1	27,267,115	11,015,100	2,984,900	11,661,681	1,605,434
„ 8	27,202,365	11,015,100	2,984,900	11,670,074	1,532,291
„ 15	26,974,685	11,015,100	2,984,900	11,478,722	1,495,963
„ 22	27,036,550	11,015,100	2,984,900	11,441,931	1,594,619
„ 29	26,733,810	11,015,100	2,984,900	11,159,981	1,573,829
Dec. 6	26,540,480	11,015,100	2,984,900	10,992,631	1,547,849
„ 13	26,626,350	11,015,100	2,984,900	11,054,501	1,571,849
„ 20	26,819,390	11,015,100	2,984,900	11,240,465	1,578,925
„ 27	26,771,510	11,015,100	2,984,900	11,189,484	1,582,026
1846.					
Jan. 3	26,675,925	11,015,100	2,984,900	11,093,869	1,582,056
„ 10	26,541,200	11,015,100	2,984,900	11,006,127	1,535,073
„ 17	26,573,910	11,015,100	2,984,900	11,025,956	1,547,954
„ 24	26,525,025	11,015,100	2,984,900	10,974,471	1,550,554
„ 31	26,587,355	11,015,100	2,984,900	11,028,945	1,558,410
Feb. 7	26,698,620	11,015,100	2,984,900	11,140,210	1,558,410
„ 14	26,800,325	11,015,100	2,984,900	11,177,282	1,623,043
„ 21	26,973,255	11,015,100	2,984,900	11,346,130	1,627,125
„ 28	27,015,295	11,015,100	2,984,900	11,353,065	1,662,230
March 7	27,079,270	11,015,100	2,984,900	11,417,040	1,662,230
„ 14	27,117,805	11,015,100	2,984,900	11,407,524	1,710,281
„ 21	27,264,475	11,015,100	2,984,900	11,554,194	1,710,281
„ 28	27,269,245	11,015,100	2,984,900	11,558,964	1,710,281
April 4	27,181,980	11,015,100	2,984,900	11,460,445	1,721,535
„ 11	27,030,255	11,015,100	2,984,900	11,308,300	1,721,955
„ 18	27,031,510	11,015,100	2,984,900	11,250,593	1,780,917
„ 25	27,049,510	11,015,100	2,984,900	11,256,880	1,792,630
May 2	27,072,295	11,015,100	2,984,900	11,279,130	1,793,165
„ 9	27,244,995	11,015,100	2,984,900	11,451,830	1,793,165
„ 16	27,520,215	11,015,100	2,984,900	11,633,619	1,886,596
„ 23	27,706,865	11,015,100	2,984,900	11,782,453	1,924,412
„ 30	27,993,880	11,015,100	2,984,900	12,062,597	1,931,283
June 6	28,325,000	11,015,100	2,984,900	12,192,710	2,132,290
„ 13	28,603,395	11,015,100	2,984,900	12,371,105	2,232,290
„ 20	29,005,160	11,015,100	2,984,000	12,592,403	2,412,757
„ 27	29,273,105	11,015,100	2,984,900	12,849,579	2,423,526
July 4	29,322,200	11,015,100	2,984,900	12,905,074	2,417,126
„ 11	29,266,360	11,015,100	2,984,900	12,844,442	2,421,918
„ 18	29,139,905	11,015,100	2,984,900	12,703,642	2,436,263
„ 25	29,312,945	11,015,100	2,984,900	12,875,243	2,437,702
Aug. 1	29,292,320	11,015,100	2,984,900	12,854,618	2,437,702
„ 8	29,386,305	11,015,100	2,984,900	12,935,426	2,450,879
„ 15	29,456,535	11,015,100	2,984,900	12,958,912	2,497,623
„ 22	29,653,990	11,015,100	2,984,900	13,145,719	2,508,271
„ 29	29,875,890	11,015,100	2,984,900	13,199,102	2,676,788
Sept. 5	29,760,870	11,015,100	2,984,900	13,057,997	2,702,873

BANKING DEPARTMENT.

Week ending.	Capital.	Rest.	Deposits.		Seven Days' and other Bills.	Securities.		Notes.	Coin.
			Public.	Private.		Public.	Other.		
1845.	£	£	£	£	£	£	£	£	£
Sept. 6	14,553,000	3,608,180	6,474,705	8,507,213	1,021,689	13,468,613	11,967,081	8,255,505	473,558
" 13	14,553,000	3,611,161	7,319,619	8,316,750	963,995	13,348,643	12,391,188	8,430,700	593,997
" 20	14,553,000	3,616,685	8,222,109	8,110,787	1,020,324	13,348,643	13,297,048	8,327,895	549,319
" 27	14,553,000	3,621,711	8,802,110	8,070,212	1,000,311	13,348,643	14,149,003	7,946,995	602,703
Oct. 4	14,553,000	3,629,978	8,703,497	8,167,961	1,088,160	13,348,643	15,188,965	7,095,615	509,373
" 11	14,553,000	3,140,006	8,782,975	8,474,856	1,081,206	13,348,643	15,133,966	7,037,600	511,834
" 18	14,553,000	3,188,641	4,488,419	9,835,604	1,123,843	13,203,138	14,049,529	5,525,510	411,330
" 25	14,553,000	3,212,133	4,323,662	8,930,134	1,000,472	13,203,138	12,931,115	5,389,575	585,573
Nov. 1	14,553,000	3,224,453	4,487,058	9,099,737	1,106,405	13,203,138	13,429,813	5,219,775	617,927
" 8	14,553,000	3,234,595	5,340,731	9,134,243	1,133,320	13,203,138	14,234,438	5,437,730	520,583
" 15	14,553,000	3,244,733	6,524,834	8,899,130	1,101,349	13,203,138	15,041,397	5,483,110	595,401
" 22	14,553,000	3,252,209	7,363,168	9,024,223	1,063,589	13,201,863	15,454,390	6,076,985	522,951
" 29	14,553,000	3,246,426	7,670,581	8,992,719	1,045,574	13,201,863	15,871,054	5,932,345	603,038
Dec. 6	14,553,000	3,209,394	8,110,401	9,022,019	1,004,471	13,201,863	16,224,712	5,945,810	526,870
" 13	14,553,000	3,215,596	8,684,374	9,089,705	943,591	13,201,863	16,135,637	6,506,345	642,421
" 20	14,553,000	3,221,636	9,408,044	8,715,667	960,091	13,201,863	16,329,283	6,768,340	588,953
" 27	14,553,000	3,227,443	9,698,409	8,482,239	961,859	13,201,863	16,252,051	6,914,660	554,376
1846.									
Jan. 3	14,553,000	3,254,600	9,369,630	8,350,465	959,967	13,201,072	16,262,593	6,418,510	605,547
" 10	14,553,000	3,314,454	5,191,017	10,656,207	1,020,503	13,137,047	15,273,096	5,672,855	652,183
" 17	14,553,000	3,311,777	4,710,957	11,254,618	1,009,030	13,137,047	15,773,124	5,393,745	565,466
" 24	14,553,000	3,356,690	4,464,806	14,208,608	1,028,388	13,137,047	18,381,016	5,416,380	677,055
" 31	14,553,000	3,451,151	13,889,810	17,036,830	987,102	13,137,047	21,466,997	5,112,860	700,989
Feb. 7	14,553,000	3,462,787	5,054,438	18,912,445	963,888	13,137,047	22,908,661	6,263,625	637,025
" 14	14,553,000	3,474,577	5,788,873	18,018,523	945,332	13,137,047	22,251,906	6,674,075	667,277
" 21	14,553,000	3,477,016	6,202,903	18,091,320	918,282	13,137,047	22,539,192	6,887,810	678,472
" 28	14,553,000	3,689,430	6,296,535	18,617,068	947,432	13,136,440	23,242,035	6,984,485	760,505
March 7	14,553,000	3,757,708	6,502,355	17,828,778	898,176	13,136,440	22,118,987	7,576,625	707,965
" 14	14,553,000	3,767,623	6,804,524	17,476,998	887,487	13,136,440	21,923,787	7,712,120	717,285
" 21	14,553,000	3,780,009	7,065,422	17,356,203	921,887	13,136,440	21,806,191	8,033,665	700,222
" 28	14,553,000	3,789,971	7,319,625	17,103,928	953,579	13,136,731	22,181,392	7,683,690	718,290
April 4	14,553,000	3,799,508	7,074,026	16,763,047	965,446	13,136,440	22,058,631	7,316,415	643,541
" 11	14,553,000	3,352,391	4,210,976	18,069,993	959,379	14,437,065	19,438,782	6,728,120	541,772
" 18	14,553,000	3,359,084	3,197,029	17,710,987	986,017	13,957,865	18,736,602	6,515,990	595,660
" 25	14,553,000	3,364,576	2,698,953	16,978,110	962,415	13,528,065	17,884,532	6,488,140	556,317
May 2	14,553,000	3,396,540	2,578,451	16,780,380	965,730	13,303,065	17,901,148	6,408,470	661,418
" 9	14,553,000	3,406,284	3,031,375	16,256,526	981,417	13,023,065	17,734,025	6,836,405	635,107
" 16	15,553,000	3,418,272	4,084,117	16,354,017	963,128	12,988,065	18,222,548	7,497,460	664,461
" 23	14,553,000	3,426,636	4,809,183	15,947,268	970,401	12,988,065	18,236,480	7,774,925	706,478
" 30	14,553,000	3,378,878	5,228,640	16,165,620	890,192	13,008,065	18,460,493	8,043,560	704,212
June 6	14,553,000	3,379,044	5,753,512	15,927,013	832,008	12,988,065	18,321,641	8,468,180	686,691
" 13	14,553,000	3,386,810	6,537,132	15,518,397	862,665	12,988,065	18,122,098	9,011,510	736,331
" 20	14,553,000	3,396,774	7,313,539	15,293,909	832,981	13,090,946	17,984,603	9,631,235	683,419
" 27	14,553,000	3,405,354	7,807,802	15,034,361	851,222	12,987,946	18,257,149	9,664,090	742,554
July 4	14,553,000	3,424,178	7,794,200	14,402,460	887,364	12,987,142	18,145,319	9,303,090	625,651
" 11	14,553,000	3,482,541	3,489,416	15,661,286	941,566	12,962,147	16,143,726	8,425,630	596,306
" 18	14,553,000	3,504,138	3,162,696	14,904,973	989,462	12,962,560	15,382,397	8,139,020	630,292
" 25	14,553,000	3,508,378	3,438,401	14,305,311	940,024	12,962,560	14,583,407	8,562,695	636,482
Aug. 1	14,553,000	3,597,679	3,793,610	13,449,388	943,423	12,961,735	14,068,257	8,796,875	510,223
" 8	14,553,000	3,603,683	5,014,200	12,456,737	952,056	12,961,735	13,984,578	9,075,160	588,203
" 15	14,553,000	3,611,298	6,135,636	10,794,523	905,994	12,961,735	13,848,421	8,601,335	588,960
" 22	14,553,000	3,613,216	6,843,002	10,074,026	920,016	12,961,735	13,012,824	9,506,025	522,676
" 29	14,553,000	3,354,370	7,142,212	9,161,868	885,680	12,961,735	12,395,457	9,449,760	490,178
Sept. 5	14,553,000	3,864,479	7,318,919	8,557,109	935,830	12,961,735	12,523,550	9,231,095	512,957

Week ending	Bullion.	Circulation (including Bank Post Bills.)	Deposits.	Sécurities.	Reserve.
1844.					
Sept. 7.....	15.1	21.2	12.2	21.8	9.0
„ 14.....	15.1	20.9	12.8	22.1	9.3
„ 21.....	15.1	20.6	13.8	22.8	9.5
„ 28.....	15.0	20.9	14.2	23.7	9.1
Oct. 5.....	14.6	21.1	14.4	24.5	8.5
„ 12.....	14.3	21.3	16.3	26.3	8.2
„ 19.....	14.1	22.1	12.4	23.5	7.0
„ 26.....	14.0	22.3	11.8	23.2	6.7
Nov. 2.....	14.0	22.2	12.2	23.1	7.1
„ 9.....	14.1	21.6	11.9	22.5	7.5
„ 16.....	14.2	21.5	11.8	22.3	7.6
„ 23.....	14.3	21.0	12.6	22.5	8.2
„ 30.....	14.5	20.7	13.5	22.9	8.7
Dec. 7.....	14.6	20.5	14.2	23.1	9.1
„ 14.....	14.8	20.2	14.7	23.2	9.5
„ 21.....	14.9	20.1	15.4	23.7	9.6
„ 28.....	14.8	20.1	15.6	24.0	9.7
1845.					
Jan. 4.....	14.8	20.6	15.3	24.4	9.1
„ 11.....	14.7	21.4	12.9	22.8	8.3
„ 18.....	14.7	21.6	11.8	21.9	8.2
„ 25.....	14.8	21.7	11.4	21.5	8.1
Feb. 1.....	14.8	21.6	11.5	21.6	8.3
„ 8.....	15.1	21.3	13.4	22.9	8.8
„ 15.....	15.3	21.1	14.5	23.7	9.1
„ 22.....	15.4	20.7	15.1	23.7	9.6
March 1.....	15.7	20.9	15.7	24.6	9.7
„ 8.....	15.8	20.6	16.2	24.6	10.1
„ 15.....	15.9	20.6	16.4	24.7	10.2
„ 22.....	16.0	20.5	17.3	25.4	10.4
„ 29.....	16.2	20.7	18.0	26.1	10.4
April 5.....	16.0	21.1	17.3	26.0	9.9
„ 12.....	15.8	22.3	16.1	25.6	8.6
„ 19.....	15.8	22.5	14.7	24.5	8.4
„ 26.....	15.8	22.3	11.4	23.0	8.7
May 3.....	15.8	22.4	13.0	22.9	8.4
„ 10.....	15.8	22.1	13.4	22.9	8.7
„ 17.....	15.9	21.6	14.6	23.4	9.3
„ 24.....	16.2	21.4	15.1	23.4	9.8
„ 31.....	16.4	21.4	16.2	24.4	9.9
June 7.....	16.5	21.3	16.3	24.3	10.1
„ 14.....	16.6	21.0	16.5	24.1	10.5
„ 21.....	16.6	21.2	17.0	24.8	10.4
„ 28.....	16.6	21.3	17.5	25.4	10.2
July 5.....	16.4	21.6	17.3	25.7	9.7
„ 12.....	16.1	22.6	14.8	25.5	8.5
„ 19.....	15.8	22.5	13.7	23.7	8.3
„ 26.....	15.7	22.3	13.6	23.5	8.4
Aug. 2.....	15.7	22.4	14.1	24.2	8.3
„ 9.....	15.6	22.5	14.2	24.4	8.2
„ 16.....	15.6	22.9	13.9	24.5	8.0
„ 23.....	15.6	22.5	13.7	24.1	8.4
„ 30.....	15.5	22.1	14.4	24.5	8.5

Week ending	Bullion.	Circulation (including Bank Post Bills.)	Deposits.	Securities.	Reserve.
1845.					
Sept. 6.	15·4	21·7	14·9	24·8	8·7
„ 13.	15·3	21·3	15·6	25·1	9·0
„ 20.	15·3	21·4	16·3	26·0	8·8
„ 27.	15·1	21·6	16·8	26·9	8·5
Oct. 4.	14·8	22·3	16·8	27·9	7·5
„ 11.	14·5	22·1	17·2	27·9	7·5
„ 18.	14·1	23·3	14·3	26·6	5·9
„ 25.	14·0	23·1	13·2	25·5	5·9
Nov. 1.	13·8	23·1	13·5	26·0	5·8
„ 8.	13·7	22·8	14·4	26·8	5·9
„ 15.	13·5	22·5	15·4	27·6	6·0
„ 22.	13·5	22·0	16·3	28·1	6·5
„ 29.	13·2	21·8	16·6	28·5	6·4
Dec. 6.	13·0	21·5	17·1	28·8	6·4
„ 13.	13·2	21·0	17·7	28·7	7·1
„ 20.	13·3	21·0	18·1	28·9	7·3
„ 27.	13·3	20·8	18·1	28·9	7·4
1846.					
Jan. 3.	13·2	21·2	17·7	28·9	7·0
„ 10.	13·1	21·8	15·8	27·8	6·3
„ 17.	13·1	22·1	15·9	28·3	5·9
„ 24.	13·1	22·1	18·6	30·9	6·0
„ 31.	13·2	22·4	21·4	34·0	5·8
Feb. 7.	13·3	21·3	23·9	35·4	6·8
„ 14.	13·4	21·0	23·7	34·8	7·3
„ 21.	13·6	21·0	24·2	35·1	7·5
„ 28.	13·7	20·9	24·9	35·8	7·7
March 7.	13·7	20·3	24·3	34·6	8·2
„ 14.	13·8	20·2	23·2	34·5	8·4
„ 21.	13·9	20·1	24·3	34·3	8·7
„ 28.	13·9	20·5	24·4	34·7	8·3
April 4.	13·8	20·8	23·8	34·6	7·9
„ 11.	13·5	21·2	22·2	33·3	7·2
„ 18.	13·6	21·5	20·9	32·1	7·1
„ 25.	13·6	21·5	19·6	30·8	7·1
May 2.	13·7	21·6	19·3	30·6	7·0
„ 9.	13·8	21·3	19·2	30·0	7·2
„ 16.	14·1	21·1	20·3	30·6	8·1
„ 23.	14·4	21·1	20·7	30·6	8·4
„ 30.	14·7	20·8	21·3	30·9	8·7
June 6.	14·9	20·7	21·6	30·7	9·1
„ 13.	15·3	20·4	22·0	30·5	9·7
„ 20.	15·6	20·2	22·6	30·4	10·3
„ 27.	16·0	20·4	22·8	30·6	10·4
July 4.	15·9	20·9	22·1	30·6	9·9
„ 11.	15·8	21·7	19·3	28·5	9·0
„ 18.	15·7	22·0	18·0	27·7	8·7
„ 25.	15·9	21·7	17·0	26·9	9·1
Aug. 1.	15·7	21·4	17·2	26·4	9·2
„ 8.	15·9	21·2	17·4	26·3	9·6
„ 15.	15·9	21·7	16·9	26·2	9·1
„ 22.	16·1	21·0	16·9	25·4	10·0
„ 29.	16·3	21·2	16·3	24·8	9·9
Sept. 5.	16·2	21·4	15·8	24·9	9·7

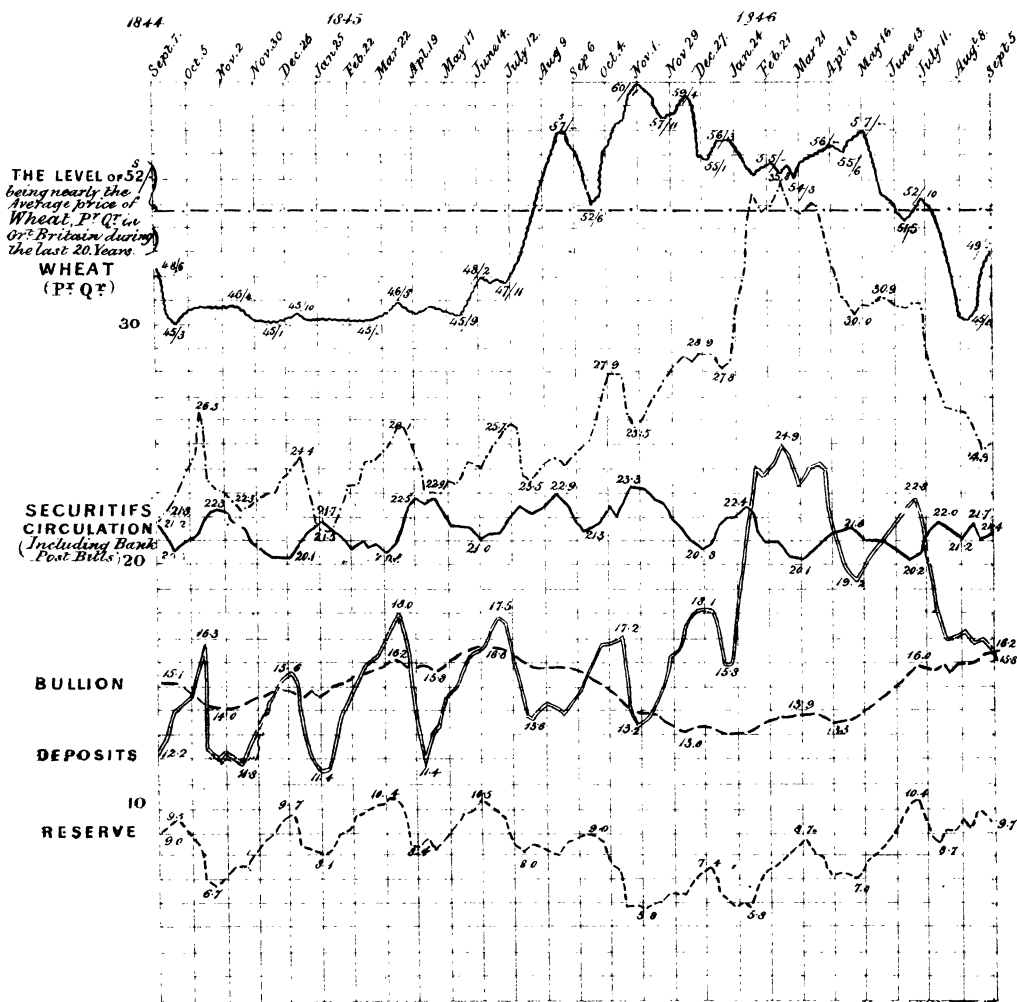
Before noticing the fluctuations shown in these accounts, it may be well to observe the effect of the payment of the dividends on the public funds quarterly. The periodical changes produced by these payments in the state of the Bank accounts, though of a perfectly legitimate nature, serve occasionally to give an apparent exaggeration to fluctuations of a different description, and, unless carefully regarded, are apt to falsify inferences drawn from a comparison of the accounts of one period with those of another. But in reference to the object of the present inquiry, it is more particularly to be observed, that previous to October, 1844, a period nearly coincident with that at which the Act of 1844 came into operation, the manner in which the payment of dividends was distributed over the quarters of the year had, to a much greater extent than at present, the effect of aiding occasional disturbances of the currency, and diminishing in some degree the power of the Bank in the use of the discretion she was then generally supposed to have, and was held bound to exercise over it. The sum annually payable in England upon the funded debt before that date may be stated in round numbers at about £27,000,000. If paid in four equal parts, it would therefore cause, four times a-year, a payment or transfer from public deposits of about £6,750,000. But the dividends being payable half-yearly, and about two-thirds in amount being payable in January and July, the payments made at the Bank of England at those quarters, previous to October, 1844, were not far from nine millions in amount, those of April and October being considerably less than five millions. And as the revenue, whence the public deposits were replenished, came in much more equably, there was usually a deficiency to be made up by extra advances from the Bank in January and July, which were repaid as the revenue came in subsequently. When (in 1844) the $3\frac{1}{2}$ per cent. stock was reduced the annual charge of the funded debt was diminished by about £625,000; and at the same time the days for payment of the dividends upon a part of the reduced stock, amounting to upwards of four millions yearly, were moved from January and July to April and October. The effect was to make the amount of the dividends payable by the Bank, on account of the Government, nearly the same at each of the four quarters, and therefore to render more equal the quarterly fluctuations of the circulation exhibited in the Bank accounts.

The bearing of this alteration upon the management of the affairs of the Bank will be obvious when it is considered that the immediate effect of each payment of dividends is to diminish, to some extent, the proper basis of the operations of the Bank, as a body making profit by the advance of capital held in deposit. The payment of some eight or nine millions twice a-year in the first days of January and of July acted upon the public deposits precisely as cheques to that amount upon private deposits. And though a part of it passed at once into the private deposits, and the advances from the Bank were always so timed as to anticipate the operation as to the rest, the periodical and unavoidable necessity of so heavy a draft upon deposits (necessarily preceded, when the revenue was deficient, by a large advance upon Government securities) had an evil influence upon the position of the Bank in times of difficulty. The equalization of the quarterly payments of dividends is therefore to be allowed for in

DIAGRAM

TO ILLUSTRATE THE ACCOUNTS OF THE BANK OF ENGLAND UNDER THE OPERATION

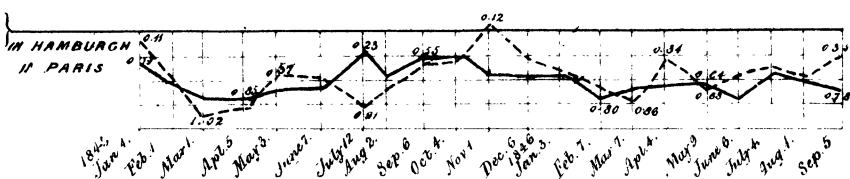
Of the Act 7 & 8 Vic. C. 32.



PRICES Quarterly
of COTTON WOOL
(Ginned Georgia
at Liverpool.)

$\frac{d}{3\frac{1}{2}}$ to $\frac{d}{5\frac{1}{4}}$ $\frac{d}{3\frac{1}{4}}$ to $\frac{d}{4\frac{1}{4}}$ $\frac{d}{3\frac{1}{2}}$ to $\frac{d}{5}$ $\frac{d}{3\frac{1}{2}}$ to $\frac{d}{5}$ $\frac{d}{3\frac{1}{2}}$ to $\frac{d}{5}$ $\frac{d}{3\frac{1}{4}}$ to $\frac{d}{5}$ $\frac{d}{3\frac{1}{4}}$ to $\frac{d}{5}$ $\frac{d}{3\frac{1}{4}}$ to $\frac{d}{5\frac{1}{2}}$

PRICE OF GOLD
IN LONDON



comparing the accounts of the Bank now exhibited with those of any period anterior to October, 1844, as leaving the amount of bank notes in the hands of the public less liable to sudden expansions twice a-year.

Prior to entering upon a review of the facts apparent upon the face of these tables, it is also desirable that notice should be taken of some other facts more or less connected with and bearing upon these—as the rate of interest, the state of the foreign exchanges, the cost of food, and the state of trade, during the two years under review.

From September, 1844, to January, 1845, the advances of the Bank were made upon bills having ninety-five days to run at $2\frac{1}{2}$ per cent. From January to March the same rate of interest was continued, but upon bills limited to eighty-five days. In March the term of ninety-five days was resumed, and the rate of interest still continued at $2\frac{1}{2}$ per cent., but only as a *minimum*, the actual rates charged varying thenceforward with the character of the security. On the 16th of October, 1845, the minimum rate was raised to 3 per cent., and on the 6th of November to $3\frac{1}{2}$ per cent. It continued at that rate till a few days before the close of the two years under review, viz., 27th August, 1846, when it was reduced to 3 per cent.

The *current* rate of interest on first-class bills was, in September, 1844, 2 per cent; in October, $2\frac{1}{2}$ to 3 per cent. In the beginning of 1845 it was lower— $2\frac{1}{4}$ to $2\frac{1}{2}$ per cent.—and continued so till near the end of August, when the railway speculations of that year attained about their greatest extent. In September it began to rise, and slowly but steadily continued to do so, till the end of February, 1846, when the deposits at the Bank of England on account of railways were completed. It then reached 5 per cent. Thenceforward it fell gradually through the remainder of the period embraced by these tables, and at the close of it was at $2\frac{3}{4}$ to $3\frac{1}{2}$ per cent.

The foreign exchanges, as indicated by the relative values of gold in London, Paris, and Hamburgh, were in favour of this country during the whole of the two years, with a single exception in November, 1845, when, for a week or two, the exchange with Hamburgh was slightly adverse*.

The harvest of 1844 is believed to have been the largest ever produced in this country. There was also a general abundance in Europe and America, with one exception (caused by heavy rains just before the harvest) in the Low Countries; where, however, the deficiency was amply made up by the surplus of Northern Europe. There was also a large quantity of old wheat on hand. Accordingly, from September, 1844, to the end of June, 1845, the price of wheat in England averaged about 46s. per quarter. But about the end of June, 1845, the failure of the potato crop became generally known, and it began to be anticipated that the grain crops would prove deficient. During the six weeks ending the 9th of August, 1845, the imperial average price of wheat rose from 47s. 11d. to 57s.†. It receded by the middle of September to 52s. 6d. It was then fully ascertained that the crop of 1845 was deficient both in quantity and in quality, and the price rose again, till it reached 60s. 1d. on the 1st of November. Thenceforward, to the middle of May, 1846, the general average was

* See Diagram No. 1.

† Ibid.

about 57*s.* After May it fell pretty regularly, till it reached 45*s.* 1*d.* on the 15th of August; and when the two years under review closed, the average price of wheat was at 49*s.*, and rising under anticipations of scarcity.

Of the state of trade it may suffice to observe, that the year 1845 was an unusually busy and profitable one, alike to the capitalist and the labourer, in every branch of production. The quantity of raw cotton imported and retained for consumption in that year was the largest on record. The same may be said of wool. The quantities of sugar, coffee, and tea imported and consumed in this country were also larger than in any previous year. The declared value of the principal articles of British produce exported also exceeded that of any previous year. And lastly, the aggregate tonnage of the shipping which entered and cleared out from the ports of the United Kingdom showed a similar increase. During the first eight months of the year 1846, included in these tables, the returns of the progress of our trade are not equally satisfactory. There was a diminution, as compared with the same period of 1845, in the value of British produce exported. This, however, is attributed with much apparent correctness, to the large amount of profitable employment offered to labour and capital in the construction of railways. The consumption of imported commodities generally, and of coffee and tea in particular, still showed an increase. That of sugar was diminished. At the same time the imports of provisions of all kinds were increased, and the quantity of timber imported (chiefly in connexion with the construction of railways) was fully 30 per cent. greater than in the same period of 1845.

Altogether, it may be said that during the greater part of the two years included in these tables the productive powers of the country were very fully and profitably employed; that during the whole of it, with the exception of the few months from the revulsion in the Share Market in October, 1845, to the completion of the arrangements for receiving and readvancing the railway deposits by the Bank in March, 1846, money for ordinary commercial purposes was abundant at a comparatively low rate of interest, and that the general condition of the people was, throughout, one of decided prosperity.

The extraordinary railway speculations of 1845, and their relation to the present subject, will be referred to in a subsequent part of the paper.

In looking at these accounts, the question likely to occur first to one desirous of ascertaining how far the Act of 1844 has operated upon the affairs of the Bank, and produced the effect intended, is this:—Has the amount of Bank of England notes in circulation fluctuated with the amount of bullion in the coffers of the Bank? If we accept that definition of the bank note circulation which is commonly in use, it needs little more than a glance to show that it has not.

For example, in the third weekly return made under the Act (21st September, 1844,) the bullion is stated at 15·1, the circulation at 20·6. Five weeks afterwards we find the bullion has fallen to 14·0, while the circulation has risen to 22·3. Thus, while bullion to the amount of £1,100,000 runs out, the note circulation is not reduced, but increased by £1,700,000.

Thenceforward, to the close of the year, the bullion rises slowly to 14·8, while the circulation falls, more rapidly, to 20·1.

At the opening of 1845 the bullion is 14·8, and the circulation 20·6. At the end of the first three months (29th March) the bullion has risen to 16·2, and the circulation is very nearly where it was, being 20·7.

Again, we find that on the 14th of June, 1845, the bullion is at 16·6, being the highest amount it reached during the two years, and the circulation 21·6, that the bullion thenceforward falls gradually till the 29th of October, when its amount is reduced to 14·0; and that during the same period the circulation rises from 21·6 to 23·3. This happens to be the highest amount the circulation reached during the two years; and it is remarkable that it was attained at a time when the bullion had been falling continuously for more than four months. While the bullion sank 2·5 the circulation rose 2·1.

A similar want of uniformity in the fluctuation of these two items is observable all through the accounts. The obvious conclusion is, that either those provisions of the Act, the purpose of which is to cause the circulation to fluctuate with the bullion, have not been in operation during these two years, or being in operation, have failed to produce the effect intended.

This view of the accounts favours the opinion of the opponents of the Act that it would be found ineffectual for its purpose of causing the circulation to fluctuate with the bullion. It is, however, to be observed, that the conclusion stated depends upon a particular definition of the word "circulation"—that namely which limits the term, as applied to Bank of England notes, to the notes in the hands of the public, excluding those retained in the Banking Department. The use of the term under this definition, for the present purpose, is justified by its having been similarly used, hitherto, both by the supporters and by the opponents of the Act. On the other hand, it is to be observed, that the separation of the Issue Department from the Banking Department appears to have been intended to place the latter in the same position, in reference to the Issue Department, as any other banking establishment in London, and therefore, seems fairly to include the idea that the notes in the drawers of that department are as much in circulation as though they were in those of any other bank. If the word "circulation" be used in this sense, the question whether the circulation has fluctuated with the bullion must of course be answered in the affirmative.

But whether the affirmative thus obtained be conclusive as showing that the purpose of the Act has been fulfilled, depends upon one or two further considerations.

That, by the machinery described, the Bank must be prevented from issuing a single note in excess of £14,000,000 against which she shall not hold bullion, is self-evident. This, therefore, can neither be the proposition disputed by the opponents of the Act, nor the one which has been advanced by its supporters.

Again, if this definition of the bank note circulation be admitted, it follows that the Act can only check the operations of the Bank when those operations call for the actual use of an amount of notes exceeding the amount of bullion in the Bank plus £14,000,000.

If notes are retained in the Banking Department, it is clear they are retained quite irrespectively of the provisions of the Act, and only in the exercise of a discretion on the part of the Bank which the Act leaves perfectly unfettered.

It was also an avowed purpose of the authors of the Act to prevent the Bank being again placed in certain positions, undoubtedly dangerous, in which she has stood in times past, and into which she has been brought, as is asserted, through a want of due care in the exercise of the discretionary power entrusted to her *before* the passing of this Act.

The Act purports to cure the evil by taking from her the power she has misused.

But if the "circulation" which it is the purpose of the Act to make fluctuate with the bullion, includes every note out of the Issue Department, it requires but little examination of these tables to show that the scope still left to the voluntary operations of the Bank is wide enough to enable its managers to place the establishment in a position quite as improper, in reference to the maintenance of its credit, as any it has occupied during the period from which the instances of mismanagement most commonly adduced have been drawn.

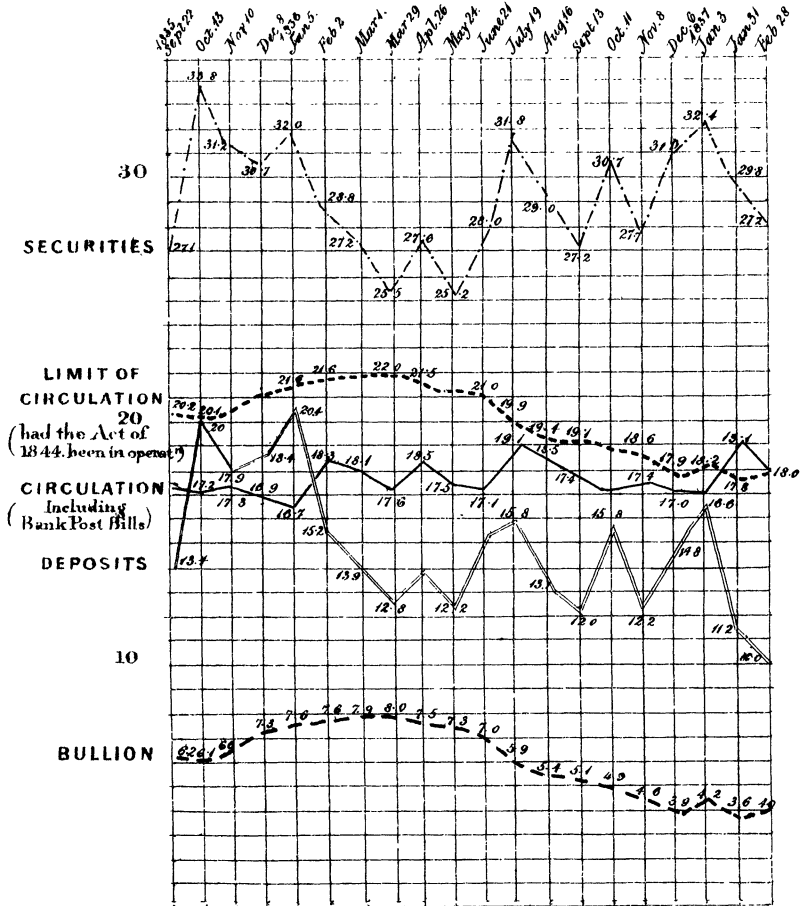
In proof of this it may be sufficient to state, by way of comparison with the tables before given, some of the particulars of the Bank accounts under the two drains of 1836-7 and 1839; being those usually referred to as best illustrating the danger of leaving to the Bank the entire control of its business of issue.

Date of Weekly Account.	Deposits.	Securities.	Circulation.	Maximum limit of the Circulation, had the Act 7 & 8 Vict., c. 32, been then in operation.	Bullion.
1835.					
Sept. 22.....	13·4	27·1	17·3	20·2	6·2
Oct. 13.....	20·0	33·8	17·2	20·1	6·1
Nov. 10.....	17·9	31·2	17·3	20·6	6·6
Dec. 8.....	18·4	30·7	16·9	21·3	7·3
1836.					
Jan. 5.....	20·4	32·0	16·7	21·6	7·6
Feb. 2.....	15·2	28·8	18·3	21·6	7·6
March 1.....	13·9	27·2	18·1	21·9	7·9
„ 29.....	12·8	25·5	17·6	22·0	8·0
April 26.....	13·9	27·6	18·5	21·5	7·5
May 24.....	12·2	25·2	17·5	21·3	7·3
June 21.....	15·2	28·0	17·1	21·0	7·0
July 19.....	15·8	31·8	19·1	19·9	5·9
Aug. 16.....	13·1	29·0	18·5	19·4	5·4
Sept. 13.....	12·0	27·2	17·4	19·1	5·1
Oct. 11.....	15·8	30·7	17·1	18·9	4·9
Nov. 8.....	12·2	27·7	17·4	18·6	4·6
Dec. 6.....	14·8	31·0	17·0	17·9	3·9
1837.					
Jan. 3.....	16·6	32·4	17·0	18·2	4·2
Jan. 31.....	11·2	29·8	19·1	17·8	3·8
Feb. 28.....	10·0	27·2	18·0	18·0	4·0

N°2.

DIAGRAM

TO ILLUSTRATE THE ACCOUNTS
OF THE BANK OF ENGLAND UNDER THE DRAIN OF
1836.



The preceding table shows the state of the Bank accounts at intervals of four weeks, from September, 1835, to February, 1837, including, as will be observed, a period of eight months, from the end of March to the beginning of December, 1836, during which the bullion sank from £8,000,000 to £3,900,000. In addition to the four items furnished by the Bank accounts, as then published, a fifth is given, showing the maximum limit which would have been imposed upon the amount of notes out of the Issue Department, had the present Act been then in operation.

The most striking feature in this series of returns is the great increase, in the autumn of 1835, and during the greater part of 1836, of the amount of *deposits* and of *securities*. The circulation was little affected, if we except the usual increase for a short time after the payment of the dividends in January and July. The bullion rose steadily till the end of March, 1836, and fell rapidly during the remainder of the year*.

The increase of the deposits, as is generally known, arose partly from the Bank having, in 1835, agreed to allow interest for the large sums accumulated in her hands by the East India Company when the commercial affairs of the Company were being wound up, and partly from the reception of deposits on account of a loan of £15,000,000 contracted by the Government about the same time (under the Act 5 and 6 Wm. IV. c. 45, 31st August, 1835,) preparatory to the payment of the Slave Compensation.

The Bank deemed it proper to extend her advances with this extension of her means. The propriety of her doing so is not here in question. The extent and facility of her advances during the latter half of 1835 and the first half of 1836 is asserted to have led to, or materially aided, the very serious reduction of her bullion shown at the close of 1836. And the present question is simply whether, had the Act of 1844 been then in operation, it would have prevented the Bank taking the course she did*.

The table given above shows that the whole circulation out of the walls of the Bank did not exceed the limit which would have been fixed by the Act, until late in January, 1837, when the bullion had already reached nearly its lowest point. And if it be observed that in the "circulation," as here stated, is included the *seven days' bills*, the amount of which, though not stated, may be safely estimated at £600,000 or £700,000, it will be seen that down to the close of 1836 the Bank, had the present Act been in operation, would have complied with its provisions, and have held at least a million of reserve in the Banking Department. But in truth it would not be just towards the managers of the Bank at that period to take this extreme view of the case. Assuming that they had unduly extended their advances during the autumn of 1835 and the spring of 1836, it is to be observed that in July 1836 they changed their course. They then raised the rate of interest to $4\frac{1}{2}$ per cent., and in August to 5 per cent. And the question at once arises—Would the Act have caused an earlier or more effective restriction of the advances? The facts seem to answer this question with a decided negative. When the rate of interest was

* See Diagram No. 2.

raised in July, the bullion amounted to nearly six millions, and the drain had only run about half its course, while the "circulation," even including the seven days' bills, and notwithstanding its expansion by the payment of the July dividends, was considerably within the limit imposed by the Act of 1844, and by the end of the year was brought still more within that limit.

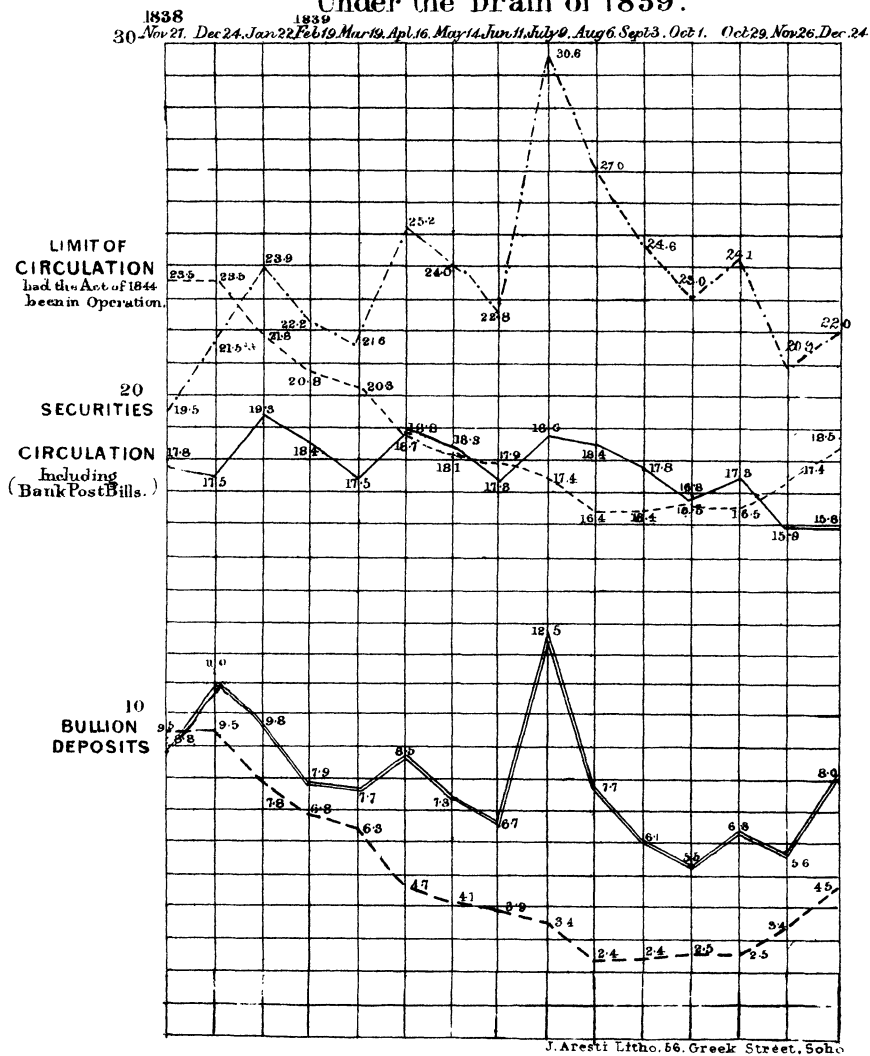
It seems evident, therefore, admitting to the fullest extent that the indiscretion of the Bank Directors caused the drain of 1836, that it would not have been prevented by the strictest enforcement of the provisions of the Act 7 and 8 of Vict. c. 32.

But the instance of want of uniformity between the circulation and the bullion most commonly brought forward to justify the restrictions of the Act of 1844 is exhibited in the Bank accounts for 1839, which are stated in the following table in the same manner as in the one preceding.

Date of Weekly Account.	Deposits.	Securities.	Circulation.	Maximum limit of the Circulation, had the Act 7 & 8 Vict., c. 32, been then in operation.	Bullion.
1838.					
Nov. 27.....	8.8	19.5	17.8	23.5	9.5
Dec. 24.....	11.0	21.5	17.5	23.5	9.5
1839.					
Jan. 22.....	9.8	23.9	19.3	21.8	7.8
Feb. 19.....	7.9	22.2	18.4	20.8	6.8
Mar. 19.....	7.7	21.6	17.5	20.3	6.3
April 16.....	8.5	25.2	18.8	18.7	4.7
May 14.....	7.3	24.0	18.3	18.1	4.1
June 11.....	6.7	22.8	17.3	17.9	3.9
July 9.....	12.5	30.6	18.6	17.4	3.4
Aug. 6.....	7.7	27.0	18.4	16.4	2.4
Sept. 3.....	6.1	24.6	17.8	16.4	2.4
Oct. 1.....	5.5	23.0	16.8	16.5	2.5
Oct. 29.....	6.3	24.1	17.3	16.5	2.5
Nov. 26.....	5.6	20.9	15.9	17.4	3.4
Dec. 24.....	8.0	22.0	15.8	18.5	4.5

A review of the manner in which the Bank exercised her discretion in making advances during the period covered by this table certainly leads to the inference that the drain was accelerated by it. In February, 1838, the current rate of interest for the best bills was about $3\frac{1}{2}$ per cent. At that time the Bank rate, having previously been 5 per cent., was reduced to 4. For some weeks afterwards the demand for money declined; and in May, 1838, the Bank rate being 4 per cent., that current out of doors did not exceed 3. After May the demand for money steadily increased. In November the market rate of interest had risen to a level with that of the Bank—4 per cent. And then came that course of conduct on the part of the Bank which has been so much blamed. On the 23rd of November a notice was issued offering advances till the 23rd of January at $3\frac{1}{2}$ per cent.; and that, not only

To Illustrate the
ACCOUNTS OF THE BANK OF ENGLAND,
Under the Drain of 1839.



upon Bills of Exchange, but upon Exchequer Bills, East India Bonds, and other approved securities. As this made the Bank rate of interest lower than that current out of doors, it was immediately followed by a large increase of the securities. Thenceforward, through the first months of 1839, while the current rate of interest went on rising, the foreign exchanges declining, and the bullion running out, the Bank continued her advances under the notice of November. On the 28th of February another notice appeared, not raising the rate, but continuing the terms of the notice of November till the 23rd of April. Now mark the result upon the column of securities. When the rate of interest was reduced in November the securities were 19·5. In the weekly return of the 9th of April they reached 26·6, showing an increase of more than £7,000,000. During the same period the bullion had fallen continuously from 9·5 to 5·2, showing a loss of £4,300,000*.

On the 16th of May the Bank took the first step towards checking the drain by raising her rate of interest from $3\frac{1}{2}$ to 5 per cent. But it was still lower than the current rate. On the 20th of June the Bank rate was raised to $5\frac{1}{2}$ per cent., and again limited to Bills of Exchange. On the 13th of July the dead-weight annuity was offered for sale; and on the 1st of August the rate of interest was further raised to *six* per cent.

The question now presented is, whether, had the Act of 1844 been then in operation, it would have prevented the Bank from lowering her rate of interest and increasing her securities in the manner shown, or would have compelled a restriction of her advances at a period so much earlier, and in a manner so much more gradual and decisive, as to have averted the necessity for the extraordinary pressure upon commercial credit exerted by the Bank in the latter months of 1839.

The table last given shows that, had the Act been then in force, the conduct of the Bank would not, down to a period so late as the 19th of March, 1839, have been in any manner contrary to its provisions†.

At that period, if we allow £700,000 for the amount (not published) of the seven days' bills, included in the return of the circulation, the reserve of notes and coin retained in the Banking Department would have been about £3,500,000, an amount amply sufficient, according to the usage of the Bank, as the deposits were then only £7,700,000. Yet at this time the bullion had already fallen from £9,500,000 to £6,300,000; all the principal causes of the drain were fully and palpably in operation; and the imputed indiscretion of the Bank Directors had been carried nearly to its full extent. It is therefore apparent that the drain of 1839, so far as it was due to any want of caution on the part of the Bank down to the middle of March, 1839, would not have been affected by the provisions of the Act of 1844, had it then been in operation.

And indeed a reference to the proximate causes of the drain in question, as they have been explained by the supporters of the Act themselves, tends strongly to show that it was not so much an arbitrary limit upon the mere present conduct of the Bank that was called for as a regard to the shadows of coming events; which, as it could

* See Diagram No. 3.

† Ibid.

only result from a process of reasoning, could not have been supplied by previous legislative enactment.

The Directors were blamed for a dangerous state of the ship—not in reference to the then present weather, but in reference to that which they might have foreseen. Passing events boded a coming storm. But it is apparent that the most significant of these events would not have effected in any appreciable degree the index of danger furnished by the Act of 1844. Apart from the knowledge that the Bank rate of interest was, from November, 1838, to March, 1839, *below* that of the market; and that the securities were increasing to an unusual extent (of neither of which circumstances the Act would have taken cognizance) there were the important facts, then well known, that the harvest of 1838 had been greatly deficient, and that large and sudden importations of foreign grain were being made during the autumn of that year and the spring of the next, which, under the circumstances, could not fail to have a depressing effect on the foreign exchanges. These facts, known to the Bank Directors, loudly counselled caution; but not materially affecting any item of the Bank accounts, as limited by the machinery of the Act of 1844, they could have had no effect in calling the restrictions of that measure into play. That from the beginning there was danger impending, of a heavy and palpable description, is evident. But it seems equally clear that to meet the danger required the forethought of intelligent men—not the restrictive mechanism of an Act of Parliament.

A careful consideration, then, of the Bank accounts given in the above tables, in conjunction with those of the twelve years immediately preceding, which embrace all the more remarkable instances of danger charged by the supporters of the Act of 1844 to the indiscretion of the Bank, appears to lead to the conclusion that the provisions of that Act are not sufficient to prevent the recurrence of similar events.

It is apparent that whenever danger has arisen which could be justly attributed to the conduct of the Bank, it has been traceable to an undue expansion of her securities; or, in other words, to a reduction of the reserve held against *her liabilities to pay in gold on demand*, to an amount dangerously small. These liabilities include the notes and bills in circulation and the deposits. But the Act embraces only a part of them—the *bank notes*. The deposits and bills are left untouched. These, and the reserve held against them, the Bank is therefore still at liberty to deal with as she thinks proper. And as the use of deposit accounts extends year by year with the growth of our commercial transactions and the more scientific management of their details, the power of the Bank to increase her advances and liabilities in this direction may be expected also to increase.

It is well known that bills may be discounted, and liabilities to pay in gold on demand be incurred, by the granting of deposit credits as readily and effectually as by the issue of bank notes, and that such credits may often be used more conveniently, and quite as efficiently, by way of transfer from one account to another, as by drawing out notes or coin. And thus the Act of 1844, though it effectually provides for the payment in gold of every note issued to the public in excess of £14,000,000, only provides for the meeting of a portion of

the liabilities of the Bank to pay in gold on demand; and a portion, too, which may sometimes at the will of the Bank become the smallest.

It follows that by indiscretion in the Banking Department—an improper increase of the securities, and diminution of the reserve against the total liabilities to pay on demand—the establishment may at any time be placed in a position as dangerous as any it has been placed in in times past.

The nature and extent of the discretion thus left to the Bank is very clearly illustrated in the tables before us by the state of her accounts during the extraordinary expansion of her banking business in the early part of 1846; by the reception and management of the railway deposits. The amount paid into the Bank of England upon this account in the previous year (1845) was about £3,444,000; but as the bank rate of interest was held rather above the current rate, and money was abundant, only a portion of this amount was advanced upon securities, the remainder going to increase the reserve. The amount paid in on account of railways in 1846 was £11,396,000; and as the Bank rate of interest was kept at $3\frac{1}{2}$, and the current rate was from 4 to 5 per cent., what was added to the deposits went to increase the securities. Whether the course taken by the Bank in the disposal of these deposits was wise or unwise is, of course, not here in question. But the fact that it *was* taken proves that the Bank retains, under the Act of 1844, that discretionary power in the use of any large addition to her deposits, her exercise of which was found fault with in 1836-7, when she held the deposits on account of the East India Company and the Slave Compensation Loan.

The following statement places in a striking point of view the result of the discretionary extension of the advances of the Bank during the two years under review, as affecting *the proportion of the reserve to the deposits* only.

By the return of 3rd May, 1845, the deposits, public and private, amounted to £13,067,000—the public deposits being £2,712,000, and the private £10,355,000. The reserve, in notes and coin, was £8,468,000.

On the 21st of June, 1845, the deposits were £17,098,000—the public deposits being £6,951,000, and the private £10,147,000. The reserve was £10,424,000.

On the 6th of December, 1845, the deposits were £17,132,000—public, £8,110,000; private, £9,022,000. The reserve was £6,471,000.

And on the 28th of February, 1846, the deposits were £24,943,000—public, £6,296,000; private, £18,647,000. The reserve was only £7,744,000*.

It will be observed that these four periods have been selected so as to exhibit every material variation of the proportion of public to private deposits. In the first instance the public deposits are unusually *low*; in the second, of a *medium* amount; in the third, *high*; and the private deposits do not much vary from a common average. In the fourth instance the public deposits are of a medium amount, and the private unusually high. The following figures show the proportion of reserve to deposits at each period:—

* See Diagram No. 4.

	Deposits.	Reserve.	Proportion of Deposits held in Reserve.
1845.			
May 3	13·0	8·4	64 per cent.
June 21	17·0	10·4	61 „
Dec. 6	17·1	6·4	37 „
1846.			
Feb. 28	24·9	7·7	30 „

The latitude of discretion here shown in the reduction of the reserve is nearly, if not quite, equal to that exhibited by the Bank at any period within the twelve years immediately preceding the passing of the Act of 1844 ; and there is nothing upon the face of that measure, or in its practical operation, which opposes any obstacle to a still further reduction of the reserve, should the Bank think proper to make it.

The bearing of the Act upon the “circulation,” in the sense in which that term was commonly used before the measure was introduced, and also in the sense in which it includes every note out of the Issue Department, having been thus tested, it only remains to mark its bearing upon the course of those commercial transactions which are known to require the use of a circulating medium, as viewed entirely apart from any particular definition of the Bank “circulation.”

And here, in the first instance, our attention is irresistibly attracted by the railway speculations during the period under review.

Between March and September, 1845, joint stock speculations for the immediate investment of capital were set on foot, involving a larger aggregate amount than had ever before been so involved in this country. The amount to raise which, for railways alone, the sanction of Parliament was actually applied for in the following Session, exceeded 340 millions. And if we include all the other schemes in which scrip or letters of allotment were actually selling in the market at a premium in July, August, and September, 1845, the amount cannot be estimated at less than 500 millions.

Many of the schemes of 1845 reached a high premium within a few weeks ; and all those first in the market, and having any substantial merit, were raised considerably above their true value. For instance, the Leeds and Thirsk Railway—£50 shares, with only the deposit of £2 10s. paid—were selling in March at £3 10s. ; in September, at £23 15s. ; and in November at £4 15s. per share. Again, the Bolton, Wigan, and Liverpool—£40 shares, with £4 paid—were selling in January, 1845, at £4 10s. ; in September, at £42 15s. ; and in December (when £9 had been paid), at £20 per share. If we assume an average premium of £10 per cent. upon the schemes then in the market, the property temporarily created by these speculations (and the repeated purchase and sale of which, on commission, furnished profitable employment to some thousands of brokers) must have been at least 50 millions.

And to this there is to be added an increased value during the same period of the shares in the established lines of railway. For instance—

The Midland Stock—amount £4,180,000—was selling in January, 1845, at 114 per cent. ; and in July at 188 per cent., showing a rise

of 74 per cent., and an increase in the aggregate value of the stock of £3,098,000.

The Great Western—share capital issued £8,160,000—£100 shares selling in January, 1845, at £156; and in July at £228, and (allowing for a call of £5 per share in the interim) showing a rise of 67 per cent., and an increase in the aggregate value of the shares of £5,467,000.

The Manchester and Leeds—share capital £4,660,000—£100 shares selling in January, 1845, at £126; and in August at £215, showing a rise of 89 per cent., and an increased value in the aggregate of £4,147,000.

The average increase in the value of £100 shares in these three lines was £76; and the total increase of value in August and September was upwards of 12 millions.

To determine to what extent the circulating medium of the country was actually expanded under these speculations might, with the existing means of information, be found extremely difficult; but that it was very great cannot be doubted; and its probable amount may be strikingly illustrated, though it cannot be proved. For instance, if we accept the estimate of the whole annual income of the inhabitants of Great Britain, given in a recent pamphlet by Mr. Smee, of the Bank of England, we may assume that it is about £370,000,000. The whole annual expenditure of the country on consumable commodities must, of course, fall within this sum, in its ultimate form. And we may safely assume that the whole amount of property the subject of purchase and sale, say within one week, at any period of the year, in reference to the annual production and consumption of the country, is considerably less in value than £370,000,000; and as it is well known that the transactions of this class form, by far, the larger part of all those in which the use of the circulating medium is necessary, it seems clear that the additional transactions connected with the purchase and sale of Railway property in 1845 must have caused, for the time, an addition to the aggregate amount of the circulating medium called into use, very large in proportion to its ordinary amount.

But it will be seen, on reference to the tables, that during those months in which the purchases and sales of railway property were most numerous and extensive, while everybody was buying and selling shares, and the current rate of interest was only $2\frac{1}{2}$ per cent., that portion of the circulating medium which consisted of Bank of England notes was but very slightly, if at all, increased, and that it reached its greatest amount when the prices of shares were lowest—when everybody had ceased to speculate—when the number and amount of current transactions were reduced to the lowest point by discredit, and the current rate of interest for first-class bills had risen from $2\frac{1}{2}$ to $4\frac{1}{2}$ per cent.

It seems to follow, therefore, either that an increase in the amount of the circulating medium is not necessary to support the most extensive speculations, or that the amount of Bank of England notes in circulation affords no index to the amount of the circulating medium; either of which conclusions is of course fatal to the theory upon which the Act of 1844 is founded.
